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IV. ILLEGAL AND CLANDESTINE TRADE

Introduction

Major emphasis by the intelligence community in the field of illegal and clandestine trade with the Sino-Soviet Bloc has been placed on individual transactions. However, some effort has been expended on arriving at estimates of Communist China's unrecorded imports, estimates of Bloc imports of specific commodity groups, and estimates of Soviet Bloc foreign exchange availabilities for the financing of unrecorded imports. The results of these efforts make possible the over-all estimates which are believed to be reasonable approximations of the volume of unrecorded imports. Some of the considerations which make the calculation of precise estimates difficult are listed below.

Since there is international agreement that certain commodities shall not be shipped to the Sino-Soviet Bloc, their movements typically are not recorded statistically. Consequently, evidence of their shipping must be derived, in the main, from intelligence sources. A further obstacle to effective appraisal of these movements of strategic commodities is the frequency with which the list of embargoed items has been revised and the varying scope of its application. For example: the 1954 list revisions resulted in a much shorter list of items embargoed to the Soviet Bloc, than to Communist China, with the direct result that large quantities of items permitted to be shipped to Soviet Bloc ports were transhipped in circumvention of the China embargo and without appropriate records of ultimate destination being reflected in the official statistics in the countries of export.

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Composition

The composition of east-west trade in embargoed commodities obviously changes with the changing needs of the Sino-Soviet Bloc and to a lesser extent with variations in the level and enforcement of security trade controls. It also reflects the differing stages of economic development in the two major areas of the Communist world.

The principal commodities appearing in this clandestine trade with the Soviet Bloc (excluding China) have been:

Copper	Nickel
Industrial Equipment	Mercury
Molybdenum and Molybdenum compounds	Bearings
Cobalt	Auto & Machine Parts
	Electronic Materials

Bloc interest has also been shown in germanium, radium, thorium nitrate and like materials. There are also strong indications that industrial diamonds and radio grade quartz are of major importance in this trade, but the detection of such imports is extremely difficult.

The principal items in clandestine trade with Communist China have been the following:

- Iron and steel
- Chemicals
- Industrial Equipment
- Non-ferrous metals

A large proportion of this trade has been in iron and steel, chemicals, and non-ferrous metals. Other items which the Communist Chinese have obtained in smaller volume have been precision instruments, petroleum products, and transportation equipment. There are recent indications that Communist Chinese wants are changing toward more advanced types of industrial supplies and equipment.

Volume

Available intelligence does not permit the making of a definitive estimate of the volume of the entire Sino-Soviet Bloc's imports of embargoed commodities. However, on the basis of the following considerations and subject to the qualification stated below, we believe that a reasonable approximation of the magnitude of this trade can be made.

Communist China's unrecorded imports for 1953 are estimated to have been approximately \$100 million. It has also been estimated that the European Soviet Bloc imported some 100,000 tons of embargoed copper, including bare copper wire, valued at \$75 million. Based upon considerations of foreign exchange availability and a considerable range of fragmentary information on specific commodities, it is thought that the value of European Soviet Bloc's unrecorded imports of other commodities was about \$50 million. It is, therefore, thought that Sino-Soviet Bloc unrecorded imports in 1953 approximated \$225 million.

Communist China's unrecorded imports dropped sharply in 1954 to some \$50 million. It has been estimated that 80,000 tons of embargoed copper valued at 68 million dollars moved to the Soviet Bloc in 1954. This does not include 40,000 tons of bare copper wire which were licensed subsequent to removal from the embargo list in August. The European Soviet Bloc's unrecorded imports other than copper for 1954 were probably in a range of \$30 to \$60 million. It is, therefore, thought that the value of Sino-Soviet Bloc's unrecorded imports for 1954 was in a range of \$150 to \$175 million.

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The total value of Sino-Soviet Bloc imports of embargoed goods may be somewhat higher than the value of unrecorded trade, owing to false and otherwise inaccurate descriptions of goods or their destinations appearing in recorded trade statistics.

Trends

East-west trade in embargoed commodities declined from 1953 to 1954. There is some evidence that this decline began in early 1954. This trend was accentuated by the reduction of the number of embargoed items from 266 to 167 in August 1954 in consequence of which east-west trade in a large number of commodities (e.g., bare copper wire) was no longer subject to embargo.

The Transit Authorization Certificate (TAC) system and Transactions Controls which were introduced early in 1955 are expected to have a further deterrent effect on this trade.

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